

MONTANA LEGISLATIVE HISTORY

Chapter 435 1975

Bill H 593 S _____ Original bill & history C

H. Committee on Taxation

Hearing Date(s) 2-21 _____ C

_____ C

_____ C

2-26 _____ C

Date Out 2-26 _____ C

S. Committee on Taxation

Hearing Date(s) 3-22 _____ C

**BEST COPY
AVAILABLE**

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DATE OUT 3-25

Did this bill originate in an interim committee? Yes No

Committee _____

Report _____

1 *House* BILL NO. *593*
 2 INTRODUCED BY *George (Frank) Paulsen*
 3 *Manual Casey*
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE AN INCENTIVE
 5 FOR DEVELOPMENT OF NEW INDUSTRY IN MONTANA BY THE ALLOWANCE
 6 OF A STATE LICENSE TAX CREDIT FOR NEW AND EXPANDING
 7 CORPORATIONS."

8
 9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

10 Section 1. Short title. This act may be cited as "The
 11 Montana Corporate License Tax Credit Act of 1975".

12 Section 2. Definitions. As used in this act:

13 (a) "Manufacturing" means the process of mechanical or
 14 chemical transformation of materials or substances into new
 15 products, as described in the standard industrial
 16 classification manual of 1972, by the office of management
 17 and budget of the United States.

18 (b) "New corporation" means a corporation engaging in
 19 manufacturing for the first time in this state; it does not
 20 include reorganizing an existing corporation in this state.

21 (c) "Expanding" means to expand or diversify a present
 22 operation to increase total wages and salaries by thirty
 23 percent (30%) or more, or create at least fifteen (15) new
 24 permanent jobs, whichever is less.

25 (d) "Department" means the state department of

1 revenue.

2 Section 3. Tax credit -- determination -- limitation.

3 (1) A new or expanding manufacturing corporation may receive
 4 a license tax credit based on a percentage of wages and
 5 salaries paid its employees for a period of five (5) years
 6 as follows:

7 (a) the first three (3) years of operation of a new
 8 corporation or the first three (3) years of expansion of an
 9 expanding corporation a credit of one percent (1%) of the
 10 total wages and salaries may be allowed.

11 (b) the fourth and fifth years of operation or
 12 expansion a corporation may receive a credit of one-half of
 13 one percent (.5%) of total wages and salaries.

14 (2) In determining total wages and salaries for an
 15 expanding corporation only those wages and salaries paid in
 16 support of the expansion are considered in ascertaining the
 17 credit; the payroll and number of jobs of the corporation in
 18 the twelve (12) month period immediately preceding the
 19 expansion are averaged to determine eligibility for the
 20 credit.

21 Section 4. Department duties. The department shall
 22 determine the eligibility of a corporation for this credit,
 23 promulgate rules, prepare forms, maintain records and
 24 perform other duties necessary to carry out this act.

25 Section 5. Exclusion. This credit is available only to

1 those new and expanding corporations that provide jobs
2 within the state of Montana.

3 Section 6. Effective date. This act is effective July
4 1, 1975.

-End-

FISCAL NOTE

Form BD-15

In compliance with a written request received February 11, 19 75, there is hereby submitted a Fiscal Note for House Bill 593 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly. Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 593 allows a state corporation license tax credit for new and expanding corporations to provide an incentive for development of new industry in Montana. The credit is based on a percentage of wages and salaries paid.

ASSUMPTIONS:

1. Employment Security Division wage information relating to new manufacturing corporations does not distinguish between corporations new to the state and reorganizations of existing corporations.
2. Employment data do not differentiate between "new hires" that are filling new jobs and those that are replacing terminating employees.
3. "New hires" attributable to new corporations or corporations expanding employment by fifteen or payrolls by 30% cannot be separated from the data on all "new hires".
4. Corporate earnings data do not portray the portion of increased earnings which is attributable to new or expanding corporations.

CONCLUSION:

Due to lack of historical information, as outlined in the above assumptions, it is not possible to estimate the magnitude of the expected corporation license tax revenue loss.



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: February 14, 1975

44th Legislature

Bill No.	Subject Matter	Date In	Sponsor	Hearing Date	Committee Action	Date Out
HB 593	Provide development incentive of new industry by license tax credit for new and expanding corporations.	2/5	FABREGA Jack Moore	2/21	Heard 2/22 - DO NOT PASS 2/26 - DO PASS AS SO AMENDED	2/22 2/26
HB 597	Eliminating requirement that land and improvements be separately assessed; and amending	2/5	HALVORSON (Request of Dept. of Rev.)	2/17	Heard 2/18 - DO PASS AS AMENDED	2/18
HB 363	Adding a new section exempt \$1000 of compensation received by Mont. resident for service in Mont. Nat. Guard from imposition of income tax.	2/5	HALVORSON (Request) Sloan	2/20	Heard 2/26 - DO NOT PASS	2/26
HB 439	Encourage real estate improvements by putting incremental increase in value into a new class for taxation purposes. Amend sec. 84-301, 84-302.	2/5	RICHARDS	2/20	Heard 2/26 - DO NOT PASS	2/26
HB 448	Amend sec. 89-325, to provide all fees & fines paid under weather modification laws be deposited in earmarked fund; provide immediate effective date.	2/5	HUNNEKENS	2/13	2/13 - DO PASS AS AMENDED	2/13
HB 447	Amend sec. 70-806, 70-821, providing all fees, taxes, fines & penalties paid under utility siting act of 1973 be deposited in earmarked fund.	2/6	HUNNEKENS	2/13	2/13 - DO PASS AS AMENDED	2/13

TAXATION COMMITTEE

February 21, 1975

Rep. Dan Yardley, Chairman, called the taxation committee to order at 8:00 a.m. in room #108, Capitol Building, Helena. Rep. J. Melvin Williams came in late. All other members were present. House Bills 580, 584, 593, and House Joint Resolution 59 were scheduled to be heard.

Rep. Wes Teague, District 69, Billings, said HJR was drafted after sitting in on state administration committees - he thinks there are a lot of internal problems in agencies, especially in the realm of spending money. HOUSE JOINT RESOLUTION 59 HJR 59 asks the Legislature to select a committee to study this area and hope it will become a permanent committee. The legislature itself has the expertise to do this study. The idea is to have agencies know that they are being watched as to how they are spending taxpayers money. He left a written report.

Rep. W. Jay Fabrega, District 44, Great Falls, explained HB 593 is to provide an incentive for development of new industry in Montana by allowing license tax credit for new and expanding industries. HOUSE BILL 393

Mr. Forest Boles, representative of the Task Force on Economic Development is in support of HB 593, which follows closely recommendations of the task force. This bill is patterned after a North Dakota law. Competition is keen for clean light industry among the states, and other states are providing incentives greater than any Montana offers. This license tax credit would be designated only for those firms doing manufacturing; utilities and mining are excluded.

Discussion brought out that it might be an unfair advantage to someone who had already been in business. Some people benefitting from this tax incentive would also be benefitted by property tax incentives. Manufacturing firms would be those described by the Standard Industries Classification Manual as it is the most fair and is firmly established. Ninety percent of all industrial growth across the country is from expanding industries.

Chairman Yardley asked Vice-Chairman Halvorson to be chairman while he presented House Bills 580 and 584.

Rep. Dan Yardley, District 74, Livingston, sponsor of HB 580 explained this bill allowed the first \$2300 of assessed value on an owner-occupied residence to be exempt from property taxation. Loss from this tax exemption to the county or city would be made up from the state general HOUSE BILL 580

would be distributed to the cities and counties to be used at the discretion of the county commissioners.

OPPOSITION: Mr. Albert Erickson, Montana Highway Users Federation, said HB 674 is not a new type of bill as it has been offered three or four times before to the Legislature. Twenty-five cents is an innocuous sum, but there are already 16 taxes, licenses and fees that are now assessed on an automobile. Parking meter money was originally for the benefit of car owners through street repair, but often it goes into the general fund or policemen's retirement fund. We are facing a possible 2.5¢ increase in gas tax. Taxes make up 70 to 75% of the cost of a gallon of gas now. A car is a necessity. There is \$1,800,000 in the highway fund for cities and counties that is unused. He doesn't think this bill is necessary, and urges do not pass. The twenty-five cent figure will mushroom.

Mr. Thomas E. Mooney, executive officer of Montana Auto Association, opposes HB 674 because it is discriminatory - it eliminates trucks, is not responsive to the feeling of motorists. Membership of the association was surveyed and they are opposed to any new burden on the motorist. Great Falls was desperate for money and they decided to impose a wheel tax - now Great Falls has a different form of government. They could not collect the fees. The bill is unnecessary and burdensome. The Association is very definitely opposed.

Mr. James W. Murry, executive secretary of the Montana AFL-CIO thinks HB 674 is needless legislation. Vehicles are already taxed heavily. The principle, itself, is all wrong. The tax could be easily increased time and time again. Urges do not pass.

Rep. Fagg said the tax is a trifling amount, and maybe is the "nose in the tent", but he sees no harm as it is left up to county commissioners to decide whether to impose it or not. The tax is 25¢ per wheel. Small trucks were to have been included in the bill, and it needs an amendment to include them.

Hearing adjourned at 8:40 a.m., and committee assumed executive session status.

HOUSE BILL 363 - Rep. Ora J. Halvorson moved that amendments Do Pass. Motion carried. Rep. Halvorson moved that HB 363 As So Amended Do Pass. Rep. J. Melvin Williams made a substitute motion that HB 363 DO NOT PASS. Motion carried with Rep. Halvorson opposed.

HOUSE BILL 392 - Rep. Bill Thomas moved that amendments to HB 392 Be Adopted. Motion carried unanimously. Rep. W. Jay Fabrega moved that AS SO AMENDED HOUSE BILL 392 DO PASS. Motion carried unanimously.

HOUSE BILL 593 - Rep. W. Jay Fabrega moved that amendments Do Pass. Copy is attached. Motion carried. Rep. Fabrega moved that HB 593 DO PASS AS SO AMENDED. Rep. Dassinger moved that on page 2, section 3, line 5, the words "five years" be stricken and "three years" inserted; and section 3(b) be stricken. Rep. Fabrega moved that section 6, page 5, lines 3 and 4 be stricken. Motions carried, with Reps.

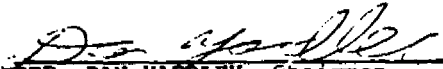
Yardley, Halvorson and Kemmis voting No. Reps. Bengtson, Dassinger, Lien, Fabrega, Teague, Williams, Aageson, Anderson voted for DO PASS AS AMENDED. Motion carried.

HOUSE BILL 439 - Rep. W. Jay Fabrega made a motion that House Bill 439 DO NOT PASS. Motion carried with Rep. Daniel Kemmis abstaining.

HOUSE BILL 417 - Rep. Fabrega moved that House Bill 417 DO NOT PASS. Rep. Edward Lien made a substitute motion that HB 417 DO PASS. Rep. Dassinger made a substitute motion to amend to three years instead of five years, page 6, line 4. Reps. Aageson, Anderson, Teague, Lien, Fabrega voted Aye. Reps. Halvorson, Yardley, Dassinger, Bengtson, Kemmis, Williams voted No. So HOUSE BILL 417 DO NOT PASS.

HOUSE BILL 440 - Rep. W. Jay Fabrega moved DO NOT PASS. Motion carried with Rep. Wes Teague voting No.

Meeting adjourned at 1:15 p.m.


REP. DAN YARDLEY, Chairman

TAXATION

HJR 19	3/6	3/29
HJR 36	3/6	3/29

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 22, 1975

The fiftieth meeting of the Taxation Committee was called to order on the above date in Room 415 of the State Capital Building by Vice Chairman Healy at 8:10 a.m.

ROLL CALL: Roll call found all members present with the exception of Chairman Watt, excused to present a bill in the House. Ex-officio member McOmber was also in attendance.

The following witnesses were present:

F. H. Boles	Econ. Dev. Task Force
Lee Hietala	"
Jerry Foster	Dept. of Revenue
Laury Lewis	"
Wm. Groff	"
Fred Barrett	Empl. Sec. Div.
Tom Winsor	Mont. Chamber

CONSIDERATION OF HOUSE BILL 506: Rep. Moore of District 41 presented his bill which he said would allow a tax exemption for people under a retirement plan. After a brief presentation of his bill Vice Chairman Healy permitted questions by the committee and Mr. Tippy. An amendment was suggested.

There were no further proponents or opponents to the bill and the hearing was concluded.

CONSIDERATION OF HOUSE BILL 593: Rep. Fabrega, District 44, presented the bill which is an attempt to encourage either expansion of existing business, or initiation of new business, thus creating new jobs and helping the employment situation in Montana, in addition to the encouragement of new industries in the state. Other proponents of the bill were Mr. Barrett who said he thought the bill might help in creation of jobs and thus take people off the unemployment rolls. Mr. Hietala, Mr. Boles and Mr. Winsor also spoke in favor of the bill.

Following their testimony Vice Chairman Healy called for the opponents of the bill.

Mr. Foster of the Department of Revenue spoke next and said although he would not object to the concept of the bill, he felt the bill did not attain the goals it aimed at and further, that it would create numerous administrative problems.

Rep. Fabrega was permitted closing statements and following, the vice chairman permitted questions from the committee. A discussion followed on the methods by which existing businesses might change their products only slightly and still qualify under the terms of the bill. They also discussed Montana's overall tax structure insofar as the taxing of business and industries is concerned. Questions were asked of Revenue representatives as well as representatives of the Montana Chamber.

Following this, hearing on HB593 was concluded.

Page 2
Tax Comm.

March 22, 1975

Members brought up HB506 and discussed an amendment. A number of amendments were also discussed to HB121 and Mr. Tippy was instructed to prepare amendments for the committee's consideration at their next meeting. He was to look into tax structures from other states to find amendments that could be used in this state.

Following this discussion, meeting was adjourned.



JOHN HEALY VICE CHAIRMAN



EXH. #1

EMPLOYMENT SECURITY DIVISION
P.O. BOX 1740 HELENA, MONTANA 59601 TELEPHONE 406/449-2511

Montana State
Employment Service

Unemployment
Insurance

March 21, 1975

To: Fred Barrett, Administrator

From: Dave Fulrom, Research Supervisor

Subject: Comments on House Bill 593 - "An act to provide an incentive for development of new industry in Montana by allowance of a state license tax credit for new and expanding corporations."

There were 1,100 manufacturing firms in Montana during the Third Quarter Calendar Year 1974 with a total annualized payroll of \$240,233,636.00, or an average annual payroll of \$218,394. The average employment of a manufacturing firm was 24 persons and the average annual wage was \$9,099.75. While we can't determine how many firms are corporations, if we use the above averages we can say that the annual loss in taxes would be \$91.00 per new employee - $\$9,099.75 \times .01$ (1% credit) = \$91.00. If the average firm increased employment by 30% (7.2 employees) the tax credit would be $(7.2 \times \$91.00 = \$655.20)$ \$655.20 annually. Or if an average-sized firm began a new operation the tax credit would be approximately $\$91.00 \times 24 = \$2,184.00$ annually.

Based on the historic growth of manufacturing industries in Montana (very slow), a total increase in employment of even 5% per year would be substantial (and I consider this highly unlikely because of current economic conditions), and amount to about 700 employees and a maximum tax credit of \$63,700.00 annually. Anything beyond this would be a windfall situation in which a very large concern were to suddenly move into Montana employing thousands of people. This situation is also highly unlikely because the basic problems which we have in attracting large manufacturing firms such as, long distances to major marketing centers, high transportation costs, small labor pool, are not likely to be offset by this bill.

If a corporation applied for this tax credit we would be able to provide historical information on their wages and employment in order to determine the 30% increase. We also have product statements on most firms and these statements have to be renewed on a 3-year cycle under the 1972 SIC code conversion. This would help determine if what they are manufacturing is an entirely new product.

To: Fred Barrett, Administrator

Page 2

Subject: House Bill 593

Under Section 2(b) the bill restricts eligibility to firms manufacturing "a product not currently manufactured in this state". This is a pretty serious limitation because it could possibly be interpreted to exclude many of the so-called "clean industries" we have tried so hard to attract. For example, no electronics firm would be eligible that manufactures electronic calculators or components. It could conceivably result in court decisions as to whether the products are the same. We already have enough environmental and economic limitations that seriously limit the kinds of industry we can attract, and this kind of language, I believe renders the bill ineffective as an incentive for the development of new industry. If they were to eliminate this criteria then the language as to what constituted a new incorporation would have to be strengthened because existing corporations can create new corporations and partnerships, and sole proprietorships could incorporate without increasing employment.

Under Section 3(2) "the payroll and number of jobs of the corporation in the twelve (12) month period immediately preceding the expansion are averaged", we wouldn't be able to ascertain any employment increase until about 3 to 5 months after the fact because of employers reporting lag time.

As a comment, I feel that this kind of bill is sorely needed to offset the other limitation Montana has to cope with in attracting the right kind of industrial development. However, it should not be limited to products other than those that we already produce, so that existing Montana companies who expand their business, even though it is in the same line, would be eligible for the same tax incentives as new companies.

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 25, 1975

The fifty-second meeting of the Taxation Committee was called to order on the above date in Room 415 of the State Capital Building for an executive session at 11:00 a.m. by Chairman Watt.

ROLL CALL: Roll call found all of the members present. Ex-officio member McOmber was also present. Shortly after the meeting began Sen. Norman was excused temporarily.

The members first discussed HB181 which had been heard by the committee previously. Mr. Burr was present and answered a number of questions in regard to the conversion from cash to accrual basis which the bill addresses itself to.

DISPOSITION: Sen. Healy MOVED HB 181 BE CONCURRED IN. The motion carried.

The next bill under consideration was HB302, heard by the committee. There followed discussion on this with some additional information also from Mr. Burr regarding taxing of flight and ground property of airlines.

DISPOSITION: Sen. Turnage MOVED HB302 BE CONCURRED IN; motion carried.

HB324 and 325 were then discussed jointly, and following the discussion the committee agreed to accept HB324.

DISPOSITION: Sen. Turnage MOVED HB324 BE CONCURRED IN; motion carried.

Sen. Turnage then MOVED HB325 BE NOT CONCURRED IN. This motion also carried.

HB449 was discussed next and since the committee had learned the bill would affect only one school district in the state, felt the legislation unnecessary.

DISPOSITION: Sen. Turnage MOVED HB449 BE NOT CONCURRED IN. Motion carried.

HB593 was next up for discussion. There followed some introduced amendments and the committee went through the bill again. Several questions were asked of Mr. Winsor, representing Montana Chamber, who was present at the meeting.

Several amendments were proposed and accepted, see copy of committee report, attached.

DISPOSITION: Sen. Towe Moved to Adopt Amendments to HB593; motion carried.

Sen. Towe then MOVED HB593 AS AMENDED, BE CONCURRED IN. The motion carried with Sens. Mathers and Turnage voting "no".

STANDING COMMITTEE REPORT

March 25 1975

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **593**

Respectfully report as follows: That **HOUSE** Bill No. **593**,
third reading, be amended as follows:

1. Amend page 1, section 2, line 20.

Following: **"MANUFACTURED"**

Insert: **"or substantially similar to a produce currently manufactured by that corporation or any affiliate corporation"**

2. Amend page 1, section 2, line 22.

Following: **"state"**

Insert: **"or the creation of a parent, subsidiary or affiliate of which fifty percent (50%) or more is owned or controlled by the same person, corporation or association"**

3. Amend page 1, section 2, line 24.

Following: **"salaries"**

Insert: **"full time"**

4. Amend page 2, section 3, lines 6 and 7.

Following: **"wages"**

Strike: **"and salaries"**

~~DELETED~~

CONTINUED

Mar. 25, 1975

5. Amend page 2, section 3, line 7.
Following: "employees"
Insert: "within this state"
6. Amend page 2, section 3, line 12.
Following: "wages"
Strike: "and salaries"
Insert: "paid in this state as wages are defined in section 87-149"
7. Amend page 2, section 3, line 16.
Following: "wages"
Strike: "and salaries"
8. Amend page 2, section 3, line 17.
Following: "wages"
Strike: "and salaries"

AND AS SO AMENDED, BE CONCURRENT IN

ROBERT D. WATT

CHAIRMAN

HOUSE BILL NO. 593

INTRODUCED BY FABREGA, JACK MOORE, QUILICI, MANUEL, CASEY

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE AN INCENTIVE FOR DEVELOPMENT OF NEW INDUSTRY IN MONTANA BY THE ALLOWANCE OF A STATE LICENSE TAX CREDIT FOR NEW AND EXPANDING CORPORATIONS."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short title. This act may be cited as "The Montana Corporate License Tax Credit Act of 1975".

Section 2. Definitions. As used in this act:

(a) "Manufacturing" means the process of mechanical or chemical transformation of materials or substances into new products, as described in the standard industrial classification manual of 1972, by the office of management and budget of the United States.

(b) "New corporation" means a corporation engaging in manufacturing for the first time in this state AND MANUFACTURING A PRODUCT NOT CURRENTLY MANUFACTURED OR SUBSTANTIALLY SIMILAR TO A PRODUCT CURRENTLY MANUFACTURED BY THAT CORPORATION OR ANY AFFILIATE CORPORATION IN THIS STATE; it does not include reorganizing an existing corporation in this state OR THE CREATION OF A PARENT, SUBSIDIARY OR AFFILIATE OF WHICH FIFTY PERCENT (50%) OR MORE IS OWNED OR

CONTROLLED BY THE SAME PERSON, CORPORATION OR ASSOCIATION.

(c) "Expanding" means to expand or diversify a present operation to increase total wages--and--salaries FULL TIME JOBS by thirty percent (30%) or more, ~~or create at least fifteen (15) new permanent jobs, whichever is less.~~

(d) "Department" means the state department of revenue.

Section 3. Tax credit -- determination -- limitation.

(1) A new or expanding manufacturing corporation may receive a license tax credit based on a percentage of wages and salaries paid its NEW employees WITHIN THIS STATE for a period of ~~five (5)~~ THREE (3) years as follows:

(a) the first three (3) years of operation of a new corporation or the first three (3) years of expansion of an expanding corporation a credit of one percent (1%) of the total NEW wages and salaries PAID IN THIS STATE AS WAGES ARE DEFINED IN SECTION 87-149 may be allowed.

~~(b) -- the -- fourth -- and -- fifth -- years -- of -- operation -- or expansion -- a corporation may receive a credit of one-half of one percent (1/2%) of total wages and salaries.~~

(2) In determining total wages and--salaries for an expanding corporation only those wages and--salaries paid in support of the expansion are considered in ascertaining the credit; the payroll and number of jobs of the corporation in the twelve (12) month period immediately preceding the

REFERENCE BILL

1 expansion are averaged to determine eligibility for the
2 credit.

3 Section 4. Department duties. The department shall
4 determine the eligibility of a corporation for this credit,
5 promulgate rules, prepare forms, maintain records and
6 perform other duties necessary to carry out this act.

7 Section 5. Exclusion. This credit is available only to
8 those new and expanding corporations that provide jobs
9 within the state of Montana.

10 ~~Section 6. Effective date. This act is effective July~~
11 ~~17, 1975.~~

-End-